NEW MEDICARE DRUG BENEFIT TO HELP PAY FOR PRESCRIPTION DRUGS

Medicare is improving its benefits to meet the needs of current and future beneficiaries, including new coverage for prescription drugs.

For nearly 40 years Medicare has covered physician and hospital costs for America's seniors and people with disabilities. In 2006, a voluntary prescription drug benefit will be added. Recent years have seen an explosion of new drug therapies that have become the standard of care for such serious chronic conditions as heart disease, hypertension and diabetes. As medical practice has relied more and more on these new medicines, beneficiaries' out-of-pocket spending on drugs has increased markedly.

We are implementing the drug benefit in a way that permits and encourages a range of options for Medicare beneficiaries to augment the standard Medicare coverage. The options not only provide a guaranteed benefit that will help with drug costs, they also permit coverage that adds to the Medicare benefit, by combining support from Medicare with support from other existing sources of help with drug costs. The result is coverage that better meets the needs of individual beneficiaries at a lower cost to the government. The options include facilitating additional coverage through employer plans, Medicare Advantage – Prescription Drug (MA-PD) plans and/or prescription drug plans (PDPs), and through charity organizations and State pharmaceutical assistance programs.

CMS welcomed input on how to ensure that the new drug benefit works well for beneficiaries, plans, providers and states, and adds to rather than replaces existing sources of support for drug coverage.

The proposed rule identified options and alternatives to the provisions we proposed and we strongly encouraged comments and ideas on our approach and on alternatives to help us design the Medicare Prescription Drug Benefit Program to operate as effectively and efficiently as possible in meeting the needs of Medicare beneficiaries. We received more than 7,500 items of correspondence containing comments on the August 2004 proposed rule. Commenters included:

- Beneficiary advocacy groups,
- Managed care organizations and other insurance industry representatives,
- Pharmacy benefit management firms,
- Pharmacies and pharmacy education and practice-related organizations,
- Pharmaceutical manufacturers,
- Representatives of physicians and other health care professionals,
- Representatives of hospitals and other healthcare providers,
- States,
- Employers and benefits consulting firms,
- Members of the Congress,
- Indian Health Service, Tribal and Urban Health Programs, and
- American Indians and Alaska Natives.

We carefully reviewed those comments and wherever possible incorporated the recommendations we received. In addition we held more than 18 Open Door Forums on the prescription drug benefit and key elements such as the retiree drug subsidy, inclusion of long term care pharmacy in PDP pharmacy networks, formulary guidelines, and the application and bidding process. The forums provided valuable input on important elements of the prescription drug program.

The new prescription drug plans will provide beneficiaries with drug coverage that meets their needs.

In exchange for a monthly premium – expected to average below $37 in 2006 – seniors and people with disabilities will get substantial help with their drug costs. In 2006, standard coverage features a $250 deductible. After that, the plan pays 75 percent of the beneficiary's drug costs up to $2,250. Once a beneficiary spends $3,600 out-of-pocket, Medicare will cover about 95 percent of all remaining drug costs. The premium for this standard benefit is subsidized about 75 percent by the federal government – a subsidy more than $1300 per beneficiary per year -- so at an average premium of $440 a year, the beneficiary pays only about one-fourth of the total cost of the new benefit.

Those costs are further subsidized for beneficiaries with low incomes and limited assets, who will receive additional premium and cost-sharing subsidies averaging almost $2300 per person in 2006. Almost 11 million beneficiaries are expected to enroll in the low-income comprehensive coverage in 2006 and will benefit from reduced premiums and reduced cost sharing in a benefit that features no gap in coverage. About 9.3 million beneficiaries will pay no premium at all, with the remaining 1.6 million paying based on a sliding scale. And the lowest income beneficiaries will pay only co-pays of $1 and $3 per prescription.

Illustrative Drug Benefit Savings for a Beneficiary with $2400 in Drug Spending

Beneficiary Group	Annual Spending (Unmanaged full retail)	Out-of-pocket Spending Under Part D	Percentage Savings After Premium	Dollar Savings After Premium
Beneficiary with standard coverage with incomes at or above 150% of FPL	$ 2400	$ 697.50	53%	$1,262.50
Beneficiary with income under 150% FPL and low assets	$ 2400	$ 348.50	77%	$1,831.50
Beneficiary with income below 135% FPL and low assets or beneficiary dually eligible for Medicaid above 100% FPL regardless of assets	$ 2400	$ 109.85	95%	$2,290.00
Beneficiary dually eligible for Medicaid with income at or below 100% FPL	$ 2400	$ 62.77	97%	$2,337.23
Beneficiary who is dually eligible for Medicaid and a nursing home resident	$ 2400	$ 0	100%	$2,400.00

Explanatory Notes: $2400 is close to the projected median spending for all beneficiaries in 2006. Beneficiary out-of-pocket and percentage savings assume 15% cost management savings by Part D plans, through price discounts and utilization management. Premium for the 150% FPL group is assumed to be in the middle of the sliding scale between $0 and $440. The out-of-pocket calculation for the 135% FPL and 100% groups assumes an average prescription price of $65 and an average co-pay of $3.50 and $2, respectively. The "percentage savings after premium" column differs from other numbers presented in the impact analysis because it reflects an individual case and includes premium, whereas the impact analysis represents average coverage across the various income groups and does not include premium.